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ROHR ALERT!! It's Up to Congress Now

1 message

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Dear Subscribers,

It is most interesting the day after the FOMC Statement (<https://bit.ly/30a5vT0>) and Chair Powell press conference (<https://bit.ly/2BNKCE0>) that there was no headline article at all in the Reuters app, and only a slight passing mention in the Financial Times app. While the US equities seemed to react very well, could it be that the assertions of the major continued accommodation were not really news?

That is something we had been cautioning on recently, and reminded again in Wednesday morning's 'Temporary Fed Follies Today' ALERT!! Much as we had suspected, the Committee noted the return of weakness on the resurgence of the US COVID-19 infections, with the future path also dependent on the pandemic developments later this year. Chair Powell echoed that in his chat, and also revisited some other disturbing factors that will definitely be economic drags.

On top of that (much like during the June 10th presser), he had no additional support to offer outside the already announced substantial extension of accommodation that was not really news. Possibly the US equities liked the extent of that, as he responded to a question on any potential rate hike with the indication that the FOMC "...*had not even thought about thinking about thinking about...*" any potential rate increase. At first it was easy to consider that he may have misspoke; on reflection it seemed more so his form of extreme emphasis.

And to be clear *none of this was any news whatsoever!* That is why the key term in Wednesday morning's 'Temporary Fed Follies Today' was indeed 'temporary'. The historic tendency in stressed times is for there to be a certain degree of 'friendly Fed anticipation' and some follow through after the announcement and press conference. Yet the question is whether that is durable, or merely a passing influence before returning to reality... a classic case of the 'normalcy bias' we've often noted (since early 2015) being overrun by the reality on the ground.

Regarding Wednesday's US equities rally above the front month S&P 500 future key 3,230 area once again, we suppose there are some folks who when they hear 'extended accommodation' from the Fed are inclined to blindly buy the market. Under current circumstances it fully reinforces the old market adage, "*The bond market is the equities smarter older brother.*" That is because the global govies tend to trade off of the baseline economic expectations, while US equities (among others) can trade off of all sorts of extended forward expectations.

That can be on government support programs, tax policy, etc. Yet much of that is speculative, and in any event as Powell revisited once again at yesterday's press conference, the Fed is "...*a lender, not a spender.*" While it can make liquidity amply available for loans, it cannot directly spend money in the same sense as the legislative branch can approve fiscal stimulus in the form of capital injection.

Which raised an interesting market contingency noted Wednesday: That was to recall the lack of further measures at the June 10th press conference, which was the source of consternation that heavily pressured the US equities into the later part of that week. And there was also further ground for concern that Tuesday's liquidity facilities extension signaled a more downbeat Fed economic view.

Powell also revisited another point in his press conference which highlights the struggle ahead of the US equities and economy if indeed the recovery is slower than previously hoped. That is the fact that the lower and lower-middle income households who lost jobs will not see those particular jobs (especially in dining and hospitality) come back anytime soon. Along with looming rent and mortgage problems, he notes this will require much more fiscal stimulus and support.

Which finally gets us back to the theme of today's assessment: the resolution of what we have indicated is the major next US COVID-19 government relief negotiation chasm into a very narrow window to resolve those differences. We do not want to revisit all of the ways in which these talks are at an impasse, or how (without being at all political about it) the Republicans coming to the table so late with their proposal is a problem. For more on all of that please see the Monday and Tuesday 'Rocky Relief Show' and 'When a Good Idea is Bad' ALERT!!s.

Suffice to say for now that the Republicans are still pushing their view of the supplemental unemployment benefits going to "70% of previous wages" (as calibrated with October 2019 levels.) As seen in an important CNBC interview (<https://cnb.cx/3hNDx5s>) with the otherwise moderate Republican Senator Rob Portman (R-OH), they are still married to that idea. Yet a more in-depth CNBC analysis (<https://cnb.cx/39ChAnj>) noted. "...that wouldn't apply across the board."

And more to the point we have raised, on which there is very little information or discussion we can find, can the individual state unemployment agencies even implement at all timely such a complex program? Frankly, after initial problems for some states in just sending out the original additional \$600 supplement, we remain very skeptical this can be implemented timely. As noted in Tuesday's title and assessment "When a Good Idea is Bad", it is due to being introduced so late.

The Republicans are also adamantly opposed to direct relief to beleaguered states and municipalities (due to the implosions of sales tax receipts.) The latter is a point of faith for Democrats, and Republican suggestion of a supplement 'adjustment' to \$200 is also a non-starter for the Dems. So the idea there will be a final bill, or even any agreement in principle, when the current \$600 supplemental unemployment benefits expire on Friday is nothing less than very far-fetched. Revisiting Secretary Mnuchin's Tuesday comment, "*We are very far apart.*"

Yet, that future path for the economy, which the Fed (along with many others) has suggested will need much more fiscal support, now rests with the highly partisan and diametrically supplemental benefits-opposed US Congress. As a reminder, while the Dems have already committed to staying as long as it takes, the official start of the late Summer Congressional holiday is August 8th (until September 8th!!) Will the GOP do the same if the negotiations drag out? We shall see.

We are not even going to dwell on the very weak US GDP release this morning, as much like Fed accommodation that was more than amply expected. That is also the case for the US Weekly Initial Jobless Claims that ticked up again (even if a bit less than expected) and

Continuing Claims pushing back above 17.0 million. Those higher frequency data points are deteriorating again, yet in a manner that is mostly expected in the wake of individual state and municipality 'de-opening' restrictions on the COVID-19 infection surge... reinforcing the Fed sentiment.

Yet in the meantime the US equities and other asset classes are responding as expected to the lapsing of the 'temporary' friendly Fed anticipation and afterglow. The September S&P 500 future remains back below the 3,230 level once again since the overnight shock of a weaker than expected German Q2 GDP. It will be very important to see if it respects the 3,200 area lower Tolerance at 3,187.

Global govies have extended what had previous been a grudging if steady bid. And the US Dollar Index remains under pressure against other developed currencies, even if emerging currencies have been back under pressure on the weaker global economic outlook despite the greenback's secular weakness.

This is the critical consideration

COVID-19 virus spread caused US equities intermediate-term bull psychology to 'crack'. Early March already saw front month S&P 500 future back below key congestion around the mid-2019 3,030-00 previous all-time high congestion. That was below support from the push above the multi-year topping line at 3,070 as well, and left a late-February intermediate-term up channel 2,970 DOWN Break.

The subsequent DOWN Break below the front month S&P 500 future 2,600 area major up channel seemed to indicate more of a near-term failure. That was from the early 2016 low (<https://bit.ly/3jD6WB8> updated through Friday.) That was then the key higher resistance subsequently violated on its mid-April push above its 2,675 trading high Tolerance from prior to the DOWN Break (also monthly MA-48.)

The front month S&P 500 future pushing out of the broad higher range top in the 3,030-2,970 area in early June was the key to it surging to the 3,200 area. That was the next meaningful higher resistance with a 3,230 Tolerance at which it failed previously on the current rally. That is also where it stalled all three days after the early June US Employment surge with no sign it was going to push further after the June 10th negative OECD indications and disappointment with the FOMC.

And it remains a very prominent technical area, which it has just pushed above. After churning recently around the 3,100-30 interim congestion in the middle of the 3,030-2,970 and 3,200-30 ranges rallying above 3,230 despite the expanding US COVID-19 concerns was a strong indication. However, sinking back below 3,230 late last week is a cautionary sign, as the weekly Close above that level was necessary to fully signal that UP Break. Back below 3,200 (and especially its Tolerance at the 3,187 previous DOWN CPR signal) would indicate a 'false' UP Break, which could signal an important near-term top... it's still on the cusp.

If it does manage to press higher, next resistance is the February 24th major gap down from the February 21st 3,339.25 weekly Close. That is also key congestion as higher resistance, even if the gap begins at the 3,312 high of the following week (established Monday of that collapse week.) The only nominal resistance above that is February's 3,397.50 front month future all-time high.

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